Statement to House Ways and Means Committee on Misc. Tariff Bill H.R. 4911
by
Johnson Controls, Inc.

June 15, 2012

Johnson Controls is writing to voice opposition to H.R. 4911 (and S. 2334), a miscellaneous tariff bill that reduces the tariff on imported Li-ion automotive batteries from 3.4% to 2.4% through the end of 2015.

Johnson Controls is the world's leading manufacturer of lead-acid batteries for passenger cars, light trucks and utility vehicles, as well as a leading independent supplier of battery systems for hybrid, plug-in and electric vehicles.

In 2009, Johnson Controls was the recipient of a $299M Department of Energy ARRA matching grant to lead the development of an advanced battery industry in the United States. This matching grant was one of over $1 billion in grants going to several companies to establish a domestic advanced battery industry. Ten months after the grant award, Johnson Controls' Holland, Michigan plant was producing Li-ion battery systems (the first U.S. facility). The company is finalizing the transfer of its European Li-ion manufacturing to our Michigan plant. Once this is complete, Johnson Controls will use the plant to support customers in the United States as well as export battery packs to global customers in Europe and other regions around the world. The company is investing hundreds of millions of dollars, not just to build a battery manufacturing plant, but to establish an advanced battery industry in the United States. As a result, a number of new U.S.-based suppliers made investments and are now providing Johnson Controls with critical equipment and materials. When we constructed the manufacturing facility in Michigan, over 85% of the equipment and infrastructure was sourced from US companies.

The Li-ion batteries that Johnson Controls produces have been validated by the automakers (Original Equipment Manufacturers – OEMs), meet all technical specifications and requirements, and are readily available for commercial production today. In 2008, Johnson Controls began manufacturing Li-ion battery packs for our OEM customers and was the first company to mass produce Li-ion batteries for passenger vehicles.

Unfortunately, it is widely recognized that market demand for electric vehicles is developing very slowly. For example, a recent *Wall Street Journal* article (attached below) pointed out that while demand for electric vehicles will grow the market has not developed as quickly as expected. As a result, the U.S. plants built by Johnson Controls and many other Li-ion battery makers are not at capacity, nor are they profitable. Meanwhile, established competitors in Japan, Korea and China are leveraging foreign supply chains and ramping up advanced battery capacity in those countries in anticipation that the hybrid and electric vehicle market will continue to grow. The present situation has resulted in significant excess capacity in the United States and Asia.

Lowering the existing tariff on imported batteries will only serve to further disadvantage the fledgling domestic Li-ion battery manufacturing base and further slow the progress towards a robust advanced battery industry in the United States. Making it easier for foreign sources of Li-ion batteries to enter

this country and compete with domestic sources at a time when U.S. based companies are trying to establish viable businesses is not good public policy.

Johnson Controls is making significant investments to build a business model which will not rely on subsidies and incentives for growth and viability. The already challenging business environment will be made untenable if imported batteries are allowed to flood the market. At this critical time, lowering the tariff will undercut the public investments already made by federal and state governments, as well as those made by private industry.

Thank you for the opportunity to comment on H.R. 4911, and we urge you to oppose the passage of this bill in consideration to the U.S. manufacturing industry.

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Car Battery Start-Ups Fizzle

Armed with $1.26 Billion in U.S. Grants, Firms Opened Nine Factories: Jobs and Production Lag Goals

Since 2009, the Obama administration has awarded more than $1 billion to American companies to make advanced batteries for electric vehicles. Halfway to a six-year goal of producing one million electric and plug-in hybrid vehicles, auto makers are barely at 50,000 cars.

Since 2009, the Obama administration has given out more than $1 billion to create a string of American companies that make batteries for electric vehicles. So far, that bet doesn't look like it's paying off, as Mike Ramsey explains on The News Hub. Photo: Bloomberg.

The money funded nine battery plants-scattered across the U.S. from Michigan to Pennsylvania and Florida-that have few customers, operate well below capacity and, so far, have created less than a third of the jobs promised by 2015. Customers including start-up Fisker Automotive Inc. and auto makers like General Motors Co. that urged the funding have struggled to produce and sell battery-powered cars, though they insist a market is coming.

President Obama heralded the "birth of an entire new industry" during the ceremonial opening of A123 Systems Inc.'s production plant in 2010. The president's 2013 budget proposal asks for an increase in tax credits to car buyers to amp sales. Getting to that electric-car nirvana is proving more difficult. A123 is scrambling to stanch losses and raise new money to stabilize its finances.

Rival Johnson Controls Inc. used government grants to build a battery plant in Holland, Mich., but that facility is nearly idled now after its main customer went bankrupt. Korea's LG Chem built a plant in Michigan to supply General Motors, but that plant, which employs 220 people, hasn't yet begun production, a company spokesman confirmed.

What happened? The U.S. provided grants that tied the battery makers to aggressive timetables, requiring each to achieve production and staffing targets that would supply tens of thousands of vehicles a year. But those production timetables weren't linked to market demand, leading to a shakeout among suppliers.

The mismatch between production and market demand has resulted in one casualty. Ener1 Inc., a battery maker that built a plant in Indianapolis with $54.9 million of a $118 million government grant, sought bankruptcy protection earlier this year. It has since exited Chapter 11 and its plant is operating, a spokesman said, albeit with 250 workers, well short of the 1,700 originally envisioned in 2009.

The Department of Energy, which oversees the administration's advanced battery grants, says it is too early to judge the effort, and believes it will bear fruit when electric cars become a regular sight on American highways. "We are trying to build the infrastructure for the American battery industry," said David Sandalow, the acting undersecretary of energy, in an interview. "Short-term trends can be important, but let's keep our eye on the medium and long term." The White House deferred comments to the DOE. Mr. Sandalow said that one or more bankruptcies among companies developing a new technology aren’t uncommon or indicative that there isn't promise.

Part of the problem was that strict timetables left little room for the market to mature. A123's $249 million matching grant required it to build facilities that could make at least 500 megawatt-hours of lithium-ion battery capacity a year by this November-the equivalent of supplying 21,000 Nissan Leaf electric-cars. Nissan Motor Co. has sold about 12,000 Leafs in the U.S. since the end of 2010.

A123's grant set out a specific sequence for the hiring of engineers and ordering of equipment. The company was required to report on each step to the DOE, according to its August 2009 grant. All funds were expected to be used by Nov. 30. In April, A123, which had to recall some of its batteries, was given a two-year extension. A123, which has been trying to raise cash through a private debt offering, said in a regulatory filing Wednesday that its losses and cash burn "raise substantial doubt on the company's ability to continue as a going concern."

"The goals that were tied to the grants said you have to ramp up this quickly, and those goals were overly optimistic," said John Gartner, an analyst who follows the electric-vehicle market for Boulder, Colo.-based Pike Research. "The market was never going to develop it as quickly as the DOE expected. It's kind of out of alignment with reality. The whole goal of 1 million electric vehicles [by 2015], there is just no way that is going to happen." Carter Driscoll, an analyst who specializes in researching alternative energy companies for CapStone Investments, blames the administration's insistence on quickly setting up and staffing these operations for the current troubles. "It was about making jobs in certain areas. It wasn't market driven. There is going to be a [jobs] fallback," said Mr. Driscoll.

Some battery makers say they knew there wouldn't be enough demand for all the grant recipients to thrive early on. "We anticipated that this thing was going to be slow," said Alex Molinaroli, president of Johnson Controls' battery division. Consolidation among the fledgling battery makers, he said, "has to happen." But while Johnson Controls' advanced battery plant isn't profitable, and Mr. Molinaroli doubts any of the new U.S. battery plants are, he said other countries, including China, are ramping up advanced battery production in anticipation that electric vehicles will eventually take off. The U.S. would have been left out of the emerging market, he said. Without the money from the U.S. government, "we would have built this plant. We just would have built it somewhere else," Mr. Molinaroli said.

All told, the administration awarded $1.26 billion in matching grants toward the construction of these plants with the promise of creating more than 6,400 jobs. To date, the companies have spent about two-thirds of the total and have hired about 2,000 workers.

Bryan Hansel, chief executive of Smith Electric Vehicles Inc., a Kansas City, Mo., maker of electric delivery vans that use A123 batteries, said battery manufacturing capacity is "overbuilt substantially" right now, and suggested battery makers will struggle during the next two years. But he also sees a "silver lining," noting that the construction of the battery plants "did give confidence to auto companies to move forward with electric vehicles."

Auto makers say they aren't backing off plans to produce electric cars despite sluggish sales so far. Nissan has sold a little more than 2,100 Leaf electric cars through the first four months of this year, though it expects to sell 20,000 by year-end. GM once hoped to sell 45,000 Chevrolet Volts this year, but has said it would no longer stick to that outlook. In the first four months of this year, GM has sold about 5,700 Volts. Ford Motor Co. also is introducing plug-in electric models this year, but executives have played down sales expectations, focusing instead on the fact that it didn't cost much to build them. Its so-called EV cars are versions of gasoline-engine models.

Likewise, Toyota Motor Corp. is releasing three plug-in vehicles in the U.S., but executives have been openly skeptical about demand and say they expect to sell about only 15,000 a year. It sold 1,700 plug-ins and nearly 24,000 Prius hybrids in April.

Nissan has said it plans to sell up to 150,000 Leafs a year after 2013 and borrowed $1.3 billion from the Department of Energy to build a battery plant and manufacturing line in Smyrna,

Tenn. Its battery plant, which will be finished in September, will be capable of making 200,000 battery packs a year-more than all other battery plants in the U.S.

"Anyone trying to write the obituary for electric cars is doing it too soon," said David Reuter, a Nissan spokesman. "We expect demand to continue to grow."